

Message Text

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C O N F I D E N T I A L EC BRUSSELS 10903

E.O. 11652: GDS

TAGS: EEC, UK, EFIN

SUBJECT: EC ROLE RE STERLING BALANCES

REF: (A) EC BRUSSELS 10289, (B) EC BRUSSELS 10810

1. AGAINST THE BACKGROUND OF THE PUBLIC U.K. PLEAS FOR HELP IN DEALING WITH THE PROBLEM OF STERLING BALANCES, SOME REPORTS OF SYMPATHETIC EUROPEAN RESPONSES (SIMONET, TINDEMANS), AND A SPATE OF PRESS REPORTS SUGGESTING THAT A MAJOR EC STEP TOWARDS FUNDING STERLING BALANCES WAS IN THE WORKS, WE HAVE CONTACTED SENIOR COMMISSION OFFICIALS TO LEARN WHAT THE COMMISSION ACTUALLY HAS IN MIND.

2. AS ALREADY REPORTED IN REF A, THERE ARE INDEED STAFF STUDIES UNDERWAY SETTING OUT THE TECHNICAL OPTIONS IN DEALING WITH STERLING BALANCES. HOWEVER, WE ARE TOLD THAT THIS WORK IS AT A LOW LEVEL, CONSIDERED NOT URGENT, AND CONSISTS MAINLY OF DUSTING OFF WELL KNOWN POTENTIAL TECHNIQUES FOR DEALING WITH STERLING BALANCES.

3. AT THE SENIOR LEVEL, ATTENTION IS FOCUSED INSTEAD ON THE U.K.'S NEGOTIATIONS ON THEIR IMF LOAN, AND THE POLICY

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MEASURES TO BE ASSOCIATED WITH THIS LOAN. AFTER THIS

PROCESS HAS BEEN COMPLETED, THERE MIGHT CONCEIVABLY BE A MOVE TO GIVE SERIOUS ATTENTION TO THE PROBLEM OF STERLING BALANCES. THIS WOULD THEN REQUIRE EXTENSIVE FURTHER STUDY-PUTTING THE POSSIBILITY OF ACTION SEVERAL MONTHS AWAY. THE SUBJECT WOULD BE DISCUSSED AT THE FORTHCOMING EUROPEAN SUMMIT ONLY IF CALLAGHAN HIMSELF RAISED IT-AND THE OUTCOME OF SUCH A DISCUSSION WOULD PROBABLY NOT GO BEYOND A PROMISE TO LOOK AT THE PROBLEM.

4. WE WERE TOLD THAT THE WORK DONE SO FAR ON STERLING BALANCES HAD NOT POINTED TO ANY PARTICULAR KIND OF SOLUTION. HOWEVER, IN THE VIEW OF SENIOR OFFICIALS HERE, IT IS HIGHLY UNLIKELY THAT A COMMUNITY SOLUTION WOULD BE CHOSEN. AS REPORTED IN REF B, ANY COMMUNITY SOLUTIONS WOULD HAVE TO REST LARGELY UPON THE FINANCIAL STRENGTH OF THE FRG. THE GERMANS, RATHER THAN CARRYING VIRTUALLY THE ENTIRE BURDEN IN AN EC CONTEXT, WOULD PREFER TO TRY TO SHARE IT WITH THE OTHER MAJOR NON-EC COUNTRIES, PARTICULARLY THE U.S. AND JAPAN. THE PROBLEM IS SIMPLY TOO LARGE FOR THEM TO CARRY ALONE. THUS, SUCH SCHEMES AS REPLACING STERLING LIABILITIES WITH EC BACKED "EUROPAS" ARE CONSIDERED COMPLETELY UNREALISTIC.

5. IN ANY CASE, SPECULATION ON THE FORM THAT AN OPERATION TO FUND STERLING BALANCES MIGHT TAKE WAS QUITE PREMATURE. THE FUNDAMENTAL PRECONDITION IS NOT TO PREPARE NEW TECHNICAL SOLUTIONS, NOR TO DECIDE AMONG OLD ONES, BUT FOR THE MAJOR COUNTRIES TO MAKE THE DETERMINATION THAT THE TIME IS RIPE FOR SUCH A STEP. THIS DOES NOT APPEAR, FROM THE COMMISSION'S VIEWPOINT AT LEAST, TO BE IMMINENT.
HINTON

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